

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	05/09/2014	29/08/2014	% Change
BLOM Stock Index*	1,187.55	1,193.10	-0.46%
Average Traded Volume	68,923	691,270	-90.03%
Average Traded Value	702,638	2,831,577	-75.19%

*22 January 1996 = 1000

BLOM Stock Index



Banking Sector

	Mkt	05/09/2014	29/08/2014	% Change
BLOM (GDR)	BSE	\$9.35	\$9.35	0.00%
BLOM Listed	BSE	\$8.75	\$8.75	0.00%
BLOM (GDR)	LSE	\$9.40	\$9.35	0.53%
Audi (GDR)	BSE	\$6.30	\$6.30	0.00%
Audi Listed	BSE	\$6.09	\$6.27	-2.87%
Audi (GDR)	LSE	\$6.50	\$6.04	7.62%
Byblos (C)	BSE	\$1.64	\$1.62	1.23%
Byblos (GDR)	LSE	\$73.00	\$73.00	0.00%
Bank of Beirut (C)	BSE	\$18.39	\$18.39	0.00%
BLC (C)	BSE	\$1.70	\$1.70	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.75	\$1.75	0.00%

	Mkt	05/09/2014	29/08/2014	% Change
Banks' Preferred Shares Index *		104.56	104.64	-0.08%
Audi Pref. E	BSE	\$100.50	\$100.70	-0.20%
Audi Pref. F	BSE	\$100.50	\$100.50	0.00%
Audi Pref. G	BSE	\$100.50	\$100.50	0.00%
Audi Pref. H	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.60	\$101.00	-0.40%
Byblos Preferred 09	BSE	\$100.10	\$100.50	-0.40%
Bank of Beirut Pref. E	BSE	\$25.80	\$25.80	0.00%
Bank of Beirut Pref. I	BSE	\$25.70	\$25.60	0.39%
Bank of Beirut Pref. H	BSE	\$25.70	\$25.70	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$100.00	\$100.00	0.00%
BLC Pref B	BSE	\$100.00	\$100.00	0.00%
BLC Pref C	BSE	\$100.00	\$100.00	0.00%
Bemo Preferred 2013	BSE	\$100.30	\$100.30	0.00%

* 25 August 2006 = 100

The BLOM Stock Index (BSI) registered a weekly drop of 0.46% to reach 1,187.55 points on Friday.

Average traded volume shrank by a weekly 90.03% to 68,923, with an average traded value lower by 75.19% to \$702,638.

Accordingly, market capitalization went down from \$9.56B last week to \$9.52B on Friday.

The BSI was surpassed by all of its regional peers. The S&P AFE40 index, the S&P Pan Arab Composite Large Midcap Index and the Morgan Stanley Emerging index (MSCI) respectively gained 2.18%, 1.29% and 1.22% to end the week at 76.04 points, 166.12 points and 1,100.26 points.

Amongst Arab Bourses, the Qatari bourse was the top performer with a weekly gain of 4.04%, recovering its 2.42% loss last week, followed by a 3.91% rise for Dubai and an uptick of 2.28% for Egypt.

The BSE was the worst performer this week followed by the Tunisian bourse and Amman's stock exchange. The last two ended the week with a 0.43% and 0.35% loss, respectively.

Back to the Beirut Stock Exchange, particularly in the banking sector, the listed shares of Byblos rose 1.23% to \$1.64. In contrast, Audi listed shares dropped by 2.87% to \$6.09.

Likewise the BLOM Preferred Stock Index (BPSI) ticked down by 0.08% to 104.56 points, where the preferred shares of Audi class "E" fell by 0.20% to \$100.50. Similarly, the preferred shares of Byblos 2008 and 2009 lost 0.40% each to end the week at \$100.60 and \$100.10, respectively. However, Bank of Beirut preferred shares class "I" added 0.39% to \$25.70.

Real Estate

	Mkt	05/09/2014	29/08/2014	% Change
Solidere (A)	BSE	\$12.56	\$12.62	-0.48%
Solidere (B)	BSE	\$12.61	\$12.52	0.72%
Solidere (GDR)	LSE	\$12.53	\$12.60	-0.56%

On the London Stock Exchange (LSE), Solidere GDR shares decreased by a weekly 0.56% to settle at \$12.53. Meanwhile, BLOM GDRs and Audi GDRs gained 0.53% and 7.62% to \$9.40 and \$6.50, respectively.

In the real estate sector, Solidere A shares declined by 0.48% to close at \$12.56, while the B shares added 0.72% to \$12.61.

Manufacturing Sector

	Mkt	05/09/2014	29/08/2014	% Change
HOLCIM Liban	BSE	\$14.50	\$15.00	-3.33%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

In the industrial sector, HOLCIM shares lost 3.33% to \$14.50.

For the coming week, security and political developments, particularly regarding fighting terrorism, will remain at the top of investors' watch-list.

Funds

	Mkt	04/09/2014	28/08/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,349.30	\$7,340.91	0.11%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,253.57	\$5,247.44	0.12%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,581.85	\$5,575.47	0.11%
BLOM Bond Fund	-----	\$9,637.73	\$9,637.73	0.00%

Retail Sector

	Mkt	05/09/2014	29/08/2014	% Change
RYMCO	BSE	\$3.40	\$3.40	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

Tourism Sector

	Mkt	05/09/2014	29/08/2014	% Change
Casino Du Liban	OTC	\$380.00	\$380.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

Foreign Exchange Market

Lebanese Forex Market

	05/09/2014	29/08/2014	% Change
Dollar / LP	1,512.00	1,507.00	0.33%
Euro / LP	1,952.66	1,988.54	-1.80%
Swiss Franc / LP	1,619.12	1,648.26	-1.77%
Yen / LP	14.33	14.51	-1.24%
Sterling / LP	2,459.64	2,502.60	-1.72%
NEER Index**	134.97	134.03	0.70%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

Nominal Effective Exchange Rate (NEER)



Mounting demand for the dollar was experienced over the prior week as mirrored by the Lebanese pound's peg against the dollar that went from \$/LP 1,505-1,509 with a mid-price of \$/LP 1,507, last week, up to 1,510-1,514 with a mid-price of \$/LP 1,512. Foreign assets (excluding gold) at the Central Bank rose by a monthly 0.76% from \$37.77B by July to \$38.05B by end-August. Meanwhile, the dollarization rate of private sector deposits stood at 66.02% in June compared to 66.13% in December 2013.

Due to low inflation, the European Central Bank reduced the refinancing rate from 0.15% to 0.05% and the deposit rate to -0.2% in the hope of encouraging businesses and households to increase their spending instead of their savings. Thus, the euro lost 1.80% against the dollar, closing at €/\$ 1.2953 on Friday, below the €/\$1.3 mark.

The strong dollar lessened demand for its substitute gold, leading to a 2.24% weekly decline in its price from \$1,289.74/ounce last week to \$1,260.84/ounce on Thursday.

By Friday September the 5th, 2014, 12:30 pm Beirut time, the dollar-pegged LP appreciated against the euro going from € /LP 1,988.54 to € /LP 1,952.66. The Nominal effective exchange Rate (NEER) added 0.70% to 134.97 points, with a 4.58% gain since year-start.

Money & Treasury Bills Market

Money Market Rates

	05/09/2014	29/08/2014	Change bps
Overnight Interbank	9.00	9.00	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Treasury Yields

	04/09/2014	28/08/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

During the week ending August 14, 2014, broad Money M3 added by LP 119B (\$79.23M), to reach LP 173,972B (\$115.40B). M3 growth rate reached 7.10% year-on-year and 3.82% since year start. In contrast, M1 regressed by LP 80B (\$53.30M) due to the drop in money in circulation by LP 91B (\$60.36M), while demand deposits increased by LP 11B (\$7.30M).

Total deposits (excluding demand deposits) grew by LP 199.80B (\$132.54M), given the rise in deposits denominated in foreign currencies by \$119M. Likewise, term and saving deposits in domestic currency advanced by LP 20B. Over the above mentioned period, the broad money dollarization went up from 59.14% to 59.20%. According to the Central Bank, the overnight interbank rate swelled from 2.75% end of May 2014 to 9.00% end of June.

In the TBs auction held on the 28th of August 2014, the Ministry of Finance raised LP 325.80B (\$216.12M), through the issuance of bills maturing in 3M and 6M, and 5Y notes. The highest demand was achieved on the 5Y notes that took a share of 85.30%, while the 3M and 6M bills accounted for 3.38% and 11.32% respectively. The 3M and 6M bills yielded 4.39% and 4.87%, respectively. Meanwhile the average coupon rate for the 5Y notes stood at 6.74%. New subscriptions exceeded Maturing T-bills by LP 39.06B (\$25.91M).

Eurobond Market

Eurobonds Index and Yield

	04/09/2014	28/08/2014	Change	Year to Date
BLOM Bond Index (BBI)*	108.550	108.507	0.04%	2.75%
Weighted Yield**	5.09%	5.09%	0	7
Weighted Spread***	345	352	-7	-85

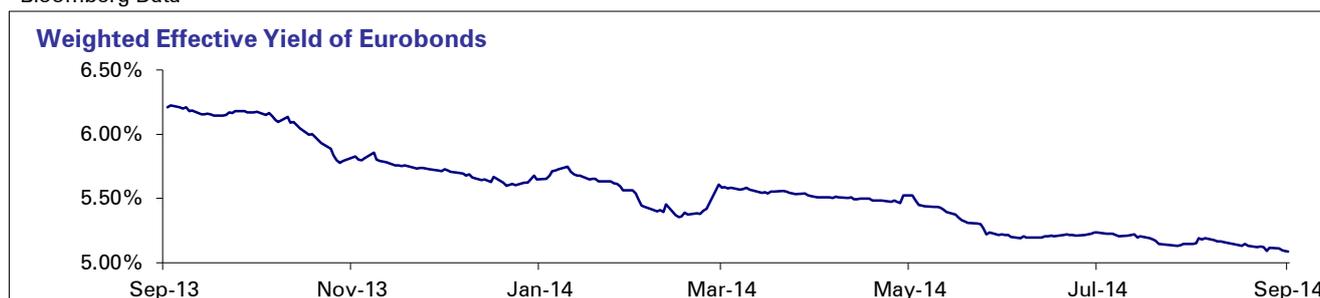
*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

** The change is in basis points ***Against US Treasuries (in basis points)

Eurobonds Lebanese Government

Maturity - Coupon	04/09/2014 Price*	28/08/2014 Price*	Weekly % Change	04/09/2014 Yield	28/08/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	104.645	104.693	-0.05%	3.34%	3.38%	-4
2016, Jan - 8.500%	106.374	106.57	-0.18%	3.70%	3.61%	9
2016, May - 11.625%	112.628	112.928	-0.27%	3.81%	3.71%	10
2017, Mar - 9.000%	111.876	111.876	0.00%	4.04%	4.07%	-3
2018, Jun - 5.150%	101.607	101.632	-0.02%	4.68%	4.67%	1
2020, Mar - 6.375%	105.119	105.049	0.07%	5.29%	5.31%	-2
2021, Apr - 8.250%	115.574	115.492	0.07%	5.41%	5.43%	-2
2022, Oct - 6.100%	102.239	102.167	0.07%	5.75%	5.76%	-1
2023, Jan - 6.000%	101.145	101.048	0.10%	5.82%	5.84%	-2
2024, Dec - 7.000%	106.745	106.574	0.16%	6.10%	6.13%	-2
2026, Nov - 6.600%	102.884	102.738	0.14%	6.26%	6.27%	-2
2027, Nov - 6.75%	103.872	103.704	0.16%	6.31%	6.33%	-2

*Bloomberg Data



Lebanon's Eurobonds market saw a timid activity over the week with the BLOM Bond Index (BBI) stabilizing in 3 out of 5 sessions. The result was BBI inching up by a weekly 0.04% to hit an 18-Month high at 108.55 points, widening by 2.75% from the beginning of the year. Long term maturities revealed a slightly improving demand on the expense of medium term Eurobonds as reflected by the 1 basis point (bp) decrease in the 10Y yield to 6.12%, while the 5Y yield rose by 2 bps to 5.04%.

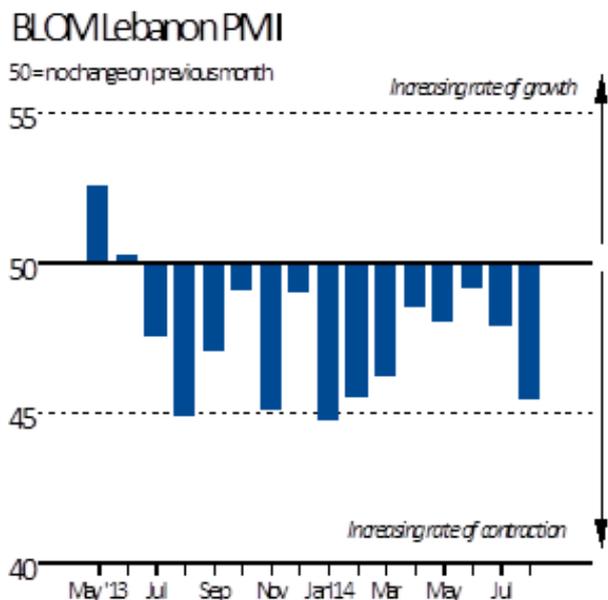
Emerging bonds lost their appeal this week following tensions between China and Philippines, the retreat in coal industry as well as the ongoing Ukrainian conflict. In this context, the JP Morgan emerging countries' bond index lost 0.27% over the week to 688.85 points.

U.S. Treasuries saw declining demand during the week as prospects of improving economic indicators in the U.S pushed investors away of the safest assets market. 5Y and 10Y treasury yields climbed to 1.71% and 2.45%, up by 8 bps and 11 bps from last week's levels. As a result, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark narrowed by 6 bps and 12 bps to 333 bps and 367 bps, respectively.

Lebanon's credit default swap for 5 years (CDS) tightened from last week's quote of 340-370 bps, to 330-360 bps. In regional economies, 5Y CDS quotes of Saudi Arabia narrowed by 2 bps to 48-53 bps. Dubai 5Y CDS contracted from 159-169 bps to 151-161 bps. Similarly, the 5Y CDS of Brazil tightened by 9 bps to 129-131 bps. Meanwhile, Turkey's 5Y CDS barely changed from 181-183 bps to 180-183 bps.

ECONOMIC AND FINANCIAL NEWS

BLOM Lebanon PMI Historical Readings



Source: Markit, Blominvest Bank

BLOM Purchasing Managers' Index Recorded a Six-month Low in August

The BLOM Lebanon PMI dropped from 47.9 in July to 45.5 in August, indicating a faster rate of contraction. August's PMI recorded a six-month low, due to the security issues which hit demand and new orders, and led the private sector to decrease output, employment levels, and purchasing activity.

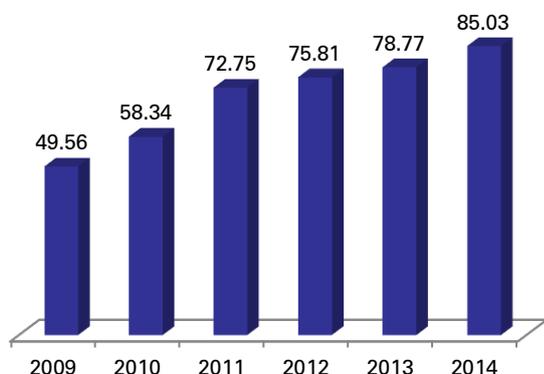
Subsequently, inventory levels fell after rising for 2 months. Moreover, competitive pressures and weakness on the demand side pushed average output prices down for the first time in the past 8 months.

Commenting on August's results, Dr. Fadi Osseiran, General Manager at Blominvest Bank, said:

"Clashes between the Lebanese army and ISIS militants in the Bekaa region, in addition to the ongoing domestic political deadlock concerning the presidential elections, had their toll on the economy and particularly on tourism. Hence demand weakened and the level of business activity fell sharply with new export orders being hit by the worsening security situation in Iraq. The outlook for the coming few months remain challenging on both the security and political fronts, thus weighing on economic activity."

BDL's Total Assets by August

(In \$B)



Source: BdL

BDL's Total Assets Inched up by 1.31% to \$85.03B by August

According to the Central Bank's (BDL) balance sheet, total assets registered a 1.31% monthly rise to reach \$85.03B by end of August.

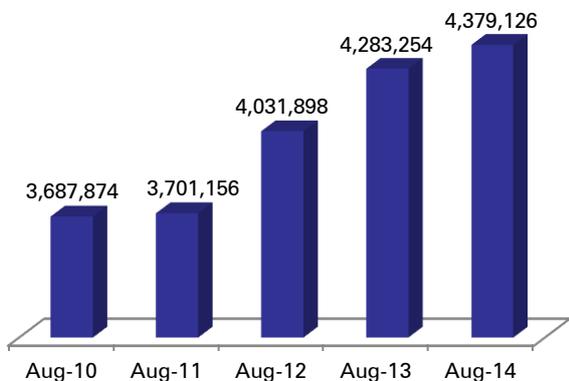
The bank's foreign assets edged up by 0.76% to \$38.05B and its securities portfolio widened by 2.01% to \$13.02B. Likewise, loans to the local financial sector surged by 8.97% to \$3.79B in August.

Gold reserves declined by 0.75% from July, to \$11.86B, noting that during this period the price of gold followed a downward trend.

On the liabilities side, financial sector deposits grew by 2.50% month-on-month to \$64.63B while public sector deposits dropped by 3.30% to \$7.16B by end of August.

Airport Passengers Improved by 2.24% y-o-y by August

Airport Passengers Up to August



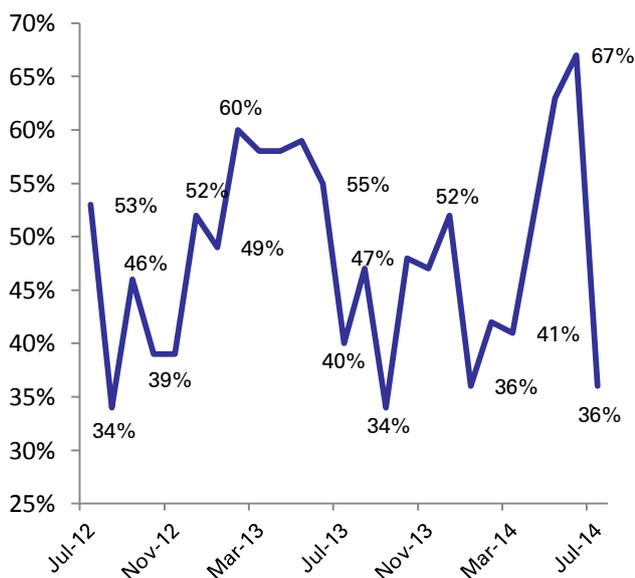
Source: RHIA

Rafic Hariri International Airport (RHIA) activity improved during the first 8 months of 2014, as the total number of passengers added 2.24% year-on-year (y-o-y) to 4.38M. After some GCC countries lifted their travel warnings on Lebanon and a calmer security situation in Lebanon, the number of arrivals inched up by 0.77% to 2.18M. At the same time, departures rose by 3.78% y-o-y to 2.19M. In contrast, transit travelers dropped by 6.02% to 9,851.

For the month of August alone, the total number of airport passengers progressed by 12.06% y-o-y to 814,800. Arrivals increased by 3.47% to 355,306 and departures surged by 19.84% reaching 458,546. Transit travelers decreased by 8.49% y-o-y, to 948.

Beirut Occupancy Rate Declined to 36% in July 2014

Beirut Occupancy Rates



Source: E&Y Hotel Benchmark Survey

Ernst and Young's Hotel Benchmark Survey revealed that Beirut's hotel occupancy rate declined by 4 percentage points (pp) year-on-year to reach 36% in July 2014, recording a six-month low. This came as a result of 3 explosions that occurred at the end of June, leading tourists to leave the country. The lower occupancy rate, in turn, resulted in Revenue per Average Room (RevPAR) dropping by 4.7% to \$62. However, Average room rate (ARR) added 4.9% y-o-y to \$170.

Taking into account the first seven months of 2014, Lebanon's occupancy rate fell by 7 pp to reach 48%, compared to 55% in the same period of 2013. Likewise, ARR and RevPAR witnessed an annual decline of 5.3% and 18.3% to \$161 and \$77.

On a regional level and for the month of July alone, Madina (Saudi Arabia) experienced the highest surge of 18 pp y-o-y in occupancy rate to 74%, following the month of Ramadan. In contrast, Amman (Jordan) saw the worst drop of 11 pp to 33%. Moreover, Dubai's occupancy rate also fell by 5.7 pp compared to the same month last year, to reach 46.4%.

In terms of Revenue per Available Room, Cairo (Egypt) experienced the best increase of 54% compared to the same month the prior year, to \$21, after the election of a new president stabilized political condition. Amman was also the worst performer in RevPAR, where it underwent a plunge of 25.2% to \$62.

Looking at Average Room Rate, the best and worst performers were respectively Jeddah (Saudi Arabia), whose ARR increased by 9.4% to \$279, and Cairo, whose ARR lost 9.2% to \$94.

Lebanon Ranked 113th out of 144 Countries on the Global Competitiveness Index

Global Competitiveness Index 2014-2015

	Rank (out of 144)	Score (1-7)
Global Competitiveness Index	113	3.7
Basic Requirements	127	3.5
Institutions	139	2.7
Infrastructure	122	2.6
Macroeconomic environment	143	2.6
Health and primary education	30	6.3
Efficiency enhancers	85	3.9
Higher education and training	67	4.4
Goods market efficiency	71	4.3
Labor market efficiency	123	3.7
Financial market development	102	3.7
Technological readiness	86	3.5
Market size	76	3.6
Innovation and sophistication factors	101	3.3
Business sophistication	75	3.9
Innovation and sophistication factors	119	2.8

Source: World Economic Forum

According to the World Economic Forum, Lebanon ranked 113th out of 144 countries, with a score of 3.7 out of 7 in the Global Competitiveness Index (GCI) for 2014-2015, compared to a score of 3.8 and a rank of 103 out of 148 countries in GCI 2013-2014.

The GCI is a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness. Competitiveness is defined as “the set of institution, policies, and factors that determine the level of productivity of a country.” The aim of the Global Competitiveness Report is to recognize strengths and weaknesses of each of the economies covered, in order to improve the world economy through identifying economic growth drivers that may be used to influence policymaking and economic reform decisions.

According to the report, competitiveness is measured using 12 pillars divided in 3 sub-indices: the Basic requirement sub-index which includes “Institutions”, “Infrastructure”, “Macroeconomic environment”, and “Health and primary education” pillars. These pillars are important for factor-driven economies. The Efficiency enhancers sub-index, which is key for efficiency-driven economies, includes the following pillars: “Higher education and training”, “Goods market efficiency”, “Labor market efficiency”, “Financial market development”, “Technological readiness” and “Market size”. The Innovation and sophistication factors sub-index, which is crucial for innovation-driven economies, consists of “Business sophistication” pillar and “Innovation” pillar.

Lebanon remained to be highly competitive in its Efficiency Enhancers sub index where it scored 3.9. However it had the lowest score of 3.3 in Innovation and sophistication factors sub-index. Lebanon’s most competitive pillars continue to be in health & primary education, Goods market efficiency, Higher education & training, as well as financial market development. Meanwhile, major policy reform is required to promote economic stability, develop infrastructure, create an institutional friendly environment, and encourage innovation. Finally, the inadequate supply of infrastructure, corruption, and inefficient government bureaucracy are considered to be the three most problematic factors for doing business in Lebanon.

CORPORATE DEVELOPMENT

Family Medical Center Hospital

Family Medical Center	
Owners	Josianne Mouawad, Habib Chidiac, Kayssar Mouawad
Location	Zgharta
Cost	\$20M
Size	12,500 sqm- 120 beds
Services Provided	All medical services except heart surgeries
Number of Physicians	90

Source: BusinessNews, BLOMINVEST Research Department

Family Medical Center worth \$20M Opens in Zgharta

A new hospital, Family Medical Center (FMC), will officially open late September in Zgharta. FMC is a 12,500 sqm center consisting of 5 floors and 120 beds and is entirely furnished by high-tech medical equipment. The criteria used for building the \$20M hospital are similar to the ones used for 5-star hotels.

FMC would offer all kinds of medical services except heart operations, but they would collaborate with Tripoli Hospital to provide its patients with this service.

The hospital will supply about 250 jobs at start and 400 jobs within a year.

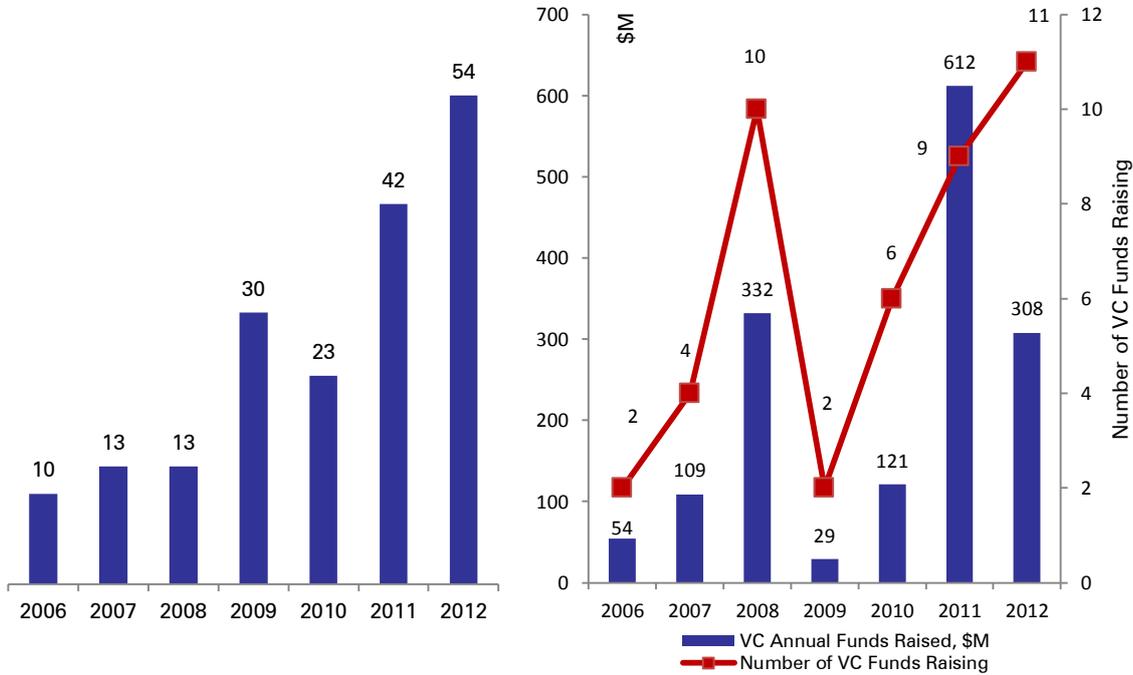
Finally, the main objective for building the hospital is to improve the quality of medical services offered.

FOCUS IN BRIEF

Lebanon Taps into the Potential Lying in Innovation and Entrepreneurship

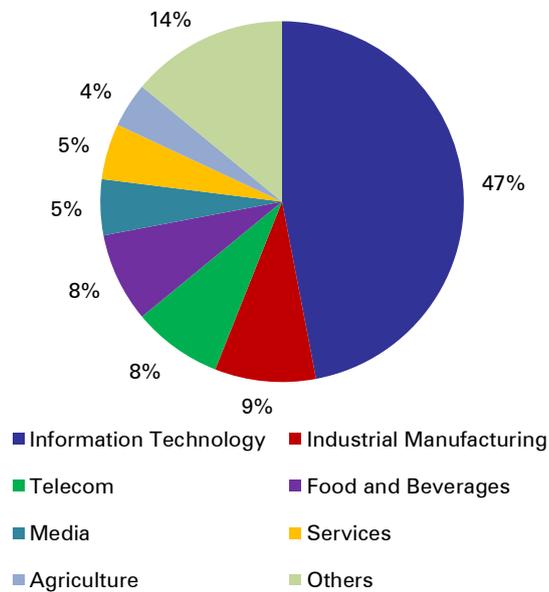
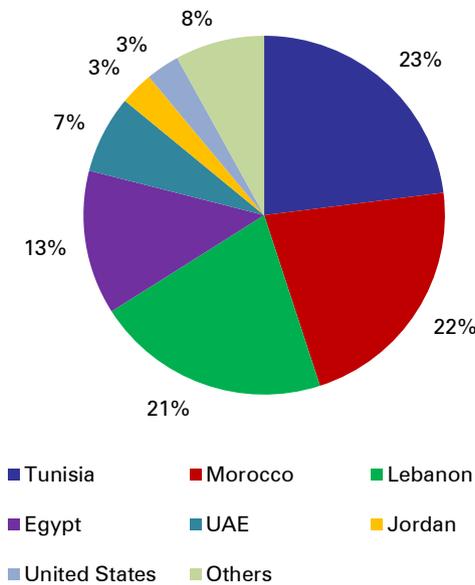
Number of VC Transactions in the MENA Region

VC Annual Funds Raised in the MENA Region



Country Concentration of VC Deals by Volume, 2010-2012

Sector Concentration of VC Deals by Volume, 2010-2012



Source: Zawya Private Equity Monitor

Embracing Innovation and Venture Capitalism

Lebanon is now unlocking the potential economic benefits held in innovative entrepreneurship, a pillar of growth and development. This truly counts as a budding cultural shift, one that can only be successful if entrepreneurs with new-ideas believe Lebanon is an innovation hotbed and if angel investors, venture capitalists, and most recently commercial banks set the right backdrop to making it one, by rendering equity financing available.

The desire to promote and encourage innovation goes hand in hand with the growth of Venture Capitalism in Lebanon. Venture Capitalists' major role is scanning a large pool of start-ups, detecting the ones with the most solid business model and growth-potential, assisting them in their early-stage growth period and propelling them into long-term growth. VC assistance is not limited to financing but also entails sharing expertise and contact networks which allow the start-ups to adapt to the fast track business environment.

A start-up must be prepared before approaching venture capitalists. The first phase in the start-up's financing cycle is delicate since all there is on the table is a budding idea and financing is limited to "love money" i.e. Friends, family or angel investors providing seed capital to kick-start the business rather than reap high returns on their investment. At this stage, referred to as "the valley of death", there is no steady or significant revenue stream, the entrepreneur incurs many initial costs and the valuation is subjective and minimal. The challenge therefore lies in surviving until the start-up is ready to successfully approach a VC.

After VCs are approached, the entrepreneur often opts for several rounds of financing. As they gather funds through multiple rounds, entrepreneurs are fine-tuning their product/service and growing their structure while being in touch with the market. In this process, if the product/service is gaining traction, the value of the company is technically increasing and allowing the entrepreneur to gather more funds in the coming round with minimum dilution of ownership.

What VCs have to Offer...

A developed VC industry has the potential to generate a slew of positive effects on Lebanon's economy such as job creation and higher competitiveness across various industries, both leading to higher overall growth. Essentially, VC would give the economy a sense of rejuvenation. The fresh Lebanese graduates will be able to steer away from the traditional career paths of medicine, engineering, law or stable high-growth jobs and explore the idea of becoming innovative entrepreneurs. As the VC space grows stronger and more organized, accessing finance to turn an idea into a profitable and scalable business becomes more of an achievable goal.

VC activity also encourages entrepreneurs of all stages to invest in Research and Development (R&D). R&D allows the future entrepreneur to learn all there is to know on the sector he is looking to tap, and gives the established entrepreneur the ability to understand and even anticipate the dynamics at play in his/her market. Awareness in regard of the benefits of R&D is yet to be raised in Lebanon, which ranked 127th out of 144 countries in terms of company spending on R&D by the World Economic Forum (WEF).

What Lebanon has to Offer...

A robust educational system is essential for the innovation landscape as it molds the country's future entrepreneurs. Lebanon has no shortcomings on this front, ranking 28th out of 144 countries for the quality of the educational system and 5th for the quality of math and science education according to the World Economic Forum. However, Lebanon is not fully reaping the rewards of this qualified pool of labor and that due to the "brain-drain" phenomenon. The qualified men and women are being drawn to grow their business or career abroad. An essential infrastructure reform and enhancement, particularly electricity and internet, is required to keep the technical innovators interested in Lebanon.

Lebanon and VCs: Strong Match even in Tough Times

Lebanon has had a challenging economic landscape since 2011 till this day but still witnessed a steady growth in venture capitalism activity. An unstable local and regional security situation along with numerous political deadlocks have had wide-reaching consequences on the Lebanese economy, subduing the core sectors of construction, real estate, and tourism. In spite of this backdrop, Lebanon ranked 59th out of 144 countries in terms of venture capital availability in the 2014-2015 edition of the World Economic Forum's Global Competitiveness Index up from the 62nd place in the 2013-2014 edition. The rise of VC availability can be explained by the fact that venture capitalists are risk takers who back entrepreneurs in "sickness and in health". VC is even a gateway for a country to regain economic strength through higher competitiveness and reduced unemployment.

Central Bank Gives the Knowledge Economy a Boost

It's precisely because the economy is in need of a boost that the central bank (Banque du Liban, BDL) issued circular #331, allowing the banks to be not only lenders but also investors in the knowledge economy. One of a kind in Lebanon, this circular stipulates that commercial banks now have the chance to finance startups, venture capital firms, accelerators, incubators, all part of the knowledge economy, through equity.

The circular has already been perceived as promising by banks, VCs and startups alike. After concluding around 15 investments in technology startups, Berytech, aiming for an average of \$30M for its second fund Berytech Fund II, has already gathered funds from Lebanese commercial banks, including Blom Bank. Blom Bank, along with Bank Audi, Bank Med, Banque Libano-Francaise and a few others have also pledged funds for Middle East Venture Partners' (MEVP) new \$50M fund. Hala Fadel, fund manager at Comgest, along with entrepreneurs Henri Asseily and Herve Cuviliez are also setting up a fund under Leap Ventures with a target of \$100M and an initial objective of \$50M, to be gathered from banks mostly and from some of the partners' own investments. Al-Mawarid Bank and Beirut Angels set the #331 circular in motion by offering more than \$300,000 to Presella, an online tickets and events reservation application. Beirut Angels is a local business angels' network launched in 2013 by former Minister of Telecom Nicolas Sehnaoui, Hala Fadel, Chairperson of the MIT Enterprise Forum and Louay Al Kadri, co-founder and CEO of Presella.

All stakeholders in the knowledge economy which are operating under the wing of BDL's circular must be careful not to over-supply the market. With new money coming in, equilibrium must be struck between supply and demand especially that new demand for money needs time to materialize. With all the VCs that have embarked on the #331 journey planning to invest over a span of around four years, pumping \$30M each year would be an acceptable deployment of funds that the market can absorb.

Different scenarios might play out when the new funds are deployed on the market. If VCs have too much money on their hands that they need to invest while the market has very few attractive opportunities, the startups might benefit from overvaluations.

However, if the new money creates a "VC oligopoly", the VCs get the upper hand. When only a few VCs control the market, startups might not have a vast array of choices and will find themselves compelled to select one of the key market players to access funding and technically lose ground in terms of negotiations.

The funds to be deployed under circular #331 might also incite other venture capital firms to enter the market or simply create a healthy competition amongst existing VCs which would then be a win-win situation for both parties. Prior to the circular, the market was characterized mostly by small funds and ticket-sizes, much co-investing and deal-sharing. This situation is likely to change once competition on the market heats up with larger funds and more proprietary deals emerging.

According to Mr. Omar Christidis, founder and CEO of ArabNet, an events and media company for the Arab digital industry, in order to gain a competitive edge, VCs must show that they can add value beyond money or/and seek to be the most visible and the most accessible on the market, which allows them to gather a substantial flow of deals. He also stressed on the fact that VCs must be keen on preserving a sound market reputation, as this element is a heavy-weight in the start-up community.

What Needs to be Done?

With large sums of money in the VC pipeline, a higher deal flow is needed. This deal flow needs to be generated by accelerators and incubators that foster the creation of start-ups. Accelerators and incubators offer early-stage entrepreneurs the mentorship and the training they need to transform a mere idea into a viable product that can garner success when it's launched and that can attract VCs. However, Lebanon needs more of these "start-up" generators today to increase the deal flow and allow the money in the VC pipeline to be utilized in worthy-investments. Hence, it goes without saying that the VC world and the accelerator and incubator ecosystem are complementary.

Setting the innovative entrepreneurship on a growth path requires better communication channels amongst all stakeholders. Entrepreneurs, Accelerators & Incubators, Venture capitalists and most recently Lebanese banks have to embrace the approach of continuous learning to keep up with the ever-evolving start-up world.

In order to foster innovation, efforts to enhance intellectual property protection must be on Lebanon's to-do-list. An innovator needs to make sure that his product is protected by the rule of law. Lebanon must increase efforts on this front as the World Economic Forum (WEF) ranked it 139th out of 144 countries in terms of intellectual property protection. However, in terms of capacity for innovation, Lebanon climbs in the ranking all the way up to the 54th spot, meaning that potential exists but simply needs to be nurtured.



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